



1600 9th Street, Sacramento, CA 95814  
(916) 654-2309

December 31, 2009

S. Kimberly Belshé  
Secretary  
California Health and Human Services Agency  
1600 Ninth Street, Room 460  
Sacramento, CA 95814

Dear Ms. Belshé,

In accordance with the Financial Integrity and State Managers Accountability Act of 1983, Government Code Sections 13400 through 13407, I am submitting the enclosed report describing the review of our systems of internal control for the biennial period ended December 31, 2009.

As statutorily required, the California Department of Mental Health is in compliance with Government Code Section 12439. Our compliance includes working with the Department of Finance to eliminate vacant positions pursuant to Government Code, Section 12439.

If you have any questions, regarding this report, please call Vallery Walker, Office of Internal Audits at (916) 651-3880.

Sincerely,

Original signed by:

STEPHEN W. MAYBERG, Ph.D.  
Director

Enclosures

cc: See next page.

cc: The Honorable Arnold Schwarzenegger  
Governor of California  
State Capitol Building, First Floor  
Sacramento, CA 95814  
Attention: Scott Reid

Ms. Ana J. Matosantos  
Director  
Department of Finance  
State Capitol, Room 1145  
Sacramento, CA 95814

The Honorable Alyson Huber  
Chair  
Joint Legislative Audit Committee  
1020 N Street, Room 107  
Sacramento, CA 95814

Elaine M. Howle, CPA  
State Auditor  
Bureau of State Audits  
555 Capitol Mall, Suite 300  
Sacramento, CA 95814

Ms. Stacey Aldrich  
State Librarian  
California State Library  
Government Publications Section  
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P.O. Box 942837  
Sacramento, CA 94237-0001



**FINANCIAL INTEGRITY AND  
STATE MANAGER'S ACCOUNTABILITY  
ACT OF 1983**

**Biennial Period:**

**January 1, 2007 through December 31, 2009**

**December 2009**



Arnold Schwarzenegger  
Governor  
**State of California**

S. Kimberly Belshé  
Secretary  
**California Health and Human Services Agency**

Stephen W. Mayberg, Ph.D.  
Director  
**California Department of Mental Health**

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### Executive Summary

The Financial Integrity and State Manager's Accountability Act of 1983 (FISMA), as stated in Government Code Sections 13400 through 13407, requires heads of state agencies to establish and maintain a system(s) of internal control within their agencies, conduct an internal review, and prepare a report on the adequacy of the agency's system(s) of internal control on a biennial basis.

This responsibility includes documentation of the system(s), communication of system requirements to employees, assurance that the system is functioning as designed, and modification of the system(s) as changes in conditions warrant.

To meet the FISMA requirements for the biennial period January 1, 2005 through December 31, 2007, the California Department of Mental Health (DMH), contracted with the Department of Finance's (DOF) Office of State Audits and Evaluations (OSAE) to conduct an internal control review, which included a risk assessment. During the accounting and administrative controls review, DOF's OSAE identified numerous deficiencies and recommendations to strengthen internal controls and improve operations, as well as additional risk areas for DMH's consideration.

For the biennial period January 1, 2007 through December 31, 2009, DMH has primarily focused on managing the risks identified in the accounting and administrative controls review, and other audits conducted by State and Federal entities with oversight responsibilities.

To address the risks, DMH Director and Executive Staff improved its program, fiscal, information technology, and administrative operations by:

- Implementing the recommendations;
- Establishing workgroups to assist the impacted divisions and monitor implementation of recommendations; and
- Establishing an internal audit function within the Department to monitor progress of reported recommendations.

DMH's efforts have resulted in the successful mitigation of fiscal and administrative risks. Eighty-three percent of the reported recommendations by State and Federal entities have been implemented.

The DMH Director and Executive Staff are committed to ensuring that DMH complies with FISMA and DOF guidelines. The internal audit function continues to assist the DMH Director and Executive Staff in fulfilling the requirements of FISMA, as outlined in Government Code, Sections 13400 through 13407.

### **Background**

DMH leads the state's mental health system, ensuring the availability and accessibility of effective, efficient, and culturally competent services. DMH has an operating budget of \$5 billion and over 11,000 employees to administer its two major programs.

Community Services Program (CS) coordinates delivery of mental health treatment and support services. CS sets overall policy for the delivery of mental health services statewide; develops and oversees performance contracts with county mental health departments; monitors compliance with state and federal statutes; and administers various state-funded programs and projects. Funding assists counties in providing a broad array of mental health treatment and rehabilitative services in a local setting that promotes recovery and integration into the community for clients with mental illness and children and youth with serious emotional disturbance. CS also provides statewide leadership and oversight for implementation of the Mental Health Services Act, which funds various local programs that expand community mental health services to children, youth, adults and older adults who have severe mental illnesses.

Long Term Care Services Program (LTCS) administers the California state hospital system, the Forensic Conditional Release Program, the Sex Offender Commitment Program, and the treatment and evaluation of judicially and civilly committed and voluntary patients. The state hospital system includes five state hospitals: Atascadero, Metropolitan, Napa, Patton and Coalinga. In addition, LTCS includes two inpatient psychiatric programs, one at the California Medical Facility in Vacaville and one at Salinas Valley State Prison, which provide treatment services to California Department of Corrections and Rehabilitation (CDCR) inmates. LTCS also provides services to juvenile justice wards of CDCR at the Southern Youth Correctional Treatment Center in Norwalk.

### **Objective**

The objective of this report is to demonstrate the Department's efforts to manage the risks identified by State and Federal entities with oversight responsibilities, which provides management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorizations and are recorded properly to permit the preparation of reliable financial statements.
- Financial operations are conducted in accordance with the State Administrative Manual guidelines and DMH policies and procedures.
- Information Technology (IT) security and risk management controls are functioning as prescribed.

**Scope**

This report is limited to the findings or observations and recommendations that were identified in audits conducted by State and Federal entities for the period of February 2007 through October 2009, and included development and implementation of policies, practices, and procedures, and preparation and review of corrective action plans to ascertain that appropriate corrective action has been taken. In addition, this report includes audits conducted at DMH Headquarters, five state hospitals and two patient psychiatric programs.

**Methodology**

DMH contracted with the DOF's OSAE to conduct a series of audits from November 2006 through November 2008. One of the audits included a review of the accounting and administrative controls for DMH Headquarters, five state hospitals and two patient psychiatric programs administered by DMH in order to meet the requirements of the FISMA.

The accounting and administrative controls review included a risk assessment to identify vulnerabilities, which could limit DMH in administering its mission-critical program objectives and business functions. DOF's OSAE identified numerous deficiencies and recommendations in their report, and additional risk areas in a separate document for DMH's consideration.

In response to the audits, the DMH Director and Executive Staff are addressing the risks and taking steps to implement the recommendations.

DMH Executive Staff established several workgroups to improve fiscal services and program operations, claims payment processing and services between the Counties and the State, and to provide a forum where DMH partners and stakeholders can share information, collaborate and provide recommendations about improvements to the Specialty Mental Health program.

The DMH Director and Executive Staff recognized the need to establish an internal audit function to assist management in finding and correcting problems in financial operations, perform special operational reviews and fraud investigations, and review internal control. Specifically, to monitor progress of recommendations reported by DOF's OSAE, and other State and Federal entities with oversight responsibilities. In August 2008, DMH hired an internal auditor to implement an internal audit function. Since that time, the Office of Internal Audits has primarily focused on performing the following functions:

- Coordinates external audits, investigations, reviews and information requests between divisions within the Department and external entities.



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- Monitors the corrective action plans for external findings and/or observations to ascertain that appropriate corrective action has been taken, including the determination of whether the actions taken remedy the underlying conditions.
- Reports the status of external audits, investigations, and reviews to Department management and the California Health and Human Services Agency.

### Summary

DMH has worked diligently to manage the risks identified in DOF's OSAE report titled *Department of Mental Health-Internal Control Review* dated December 2007. The corrective action plans for the December 1, 2009 update are presented for DMH Headquarters (**Attachment A**), and specific, individual Hospital and Psychiatric programs (**Attachments B-H**). These updates reflect DMH's continued commitment to tracking and implementing the recommendations. The table below illustrates the number of findings or observations and recommendations that are monitored by DMH:

**Table 1**

No.	Location	Number of Findings or Observations	Number of Recommendations <sup>1</sup>	Number of Recommendations Implemented
1	DMH Headquarters	7	37	33
2	Atascadero State Hospital	8	38	29
3	Coalinga State Hospital	7	35	33
4	Metropolitan State Hospital	8	24	23
5	Napa State Hospital	8	41	39
6	Patton State Hospital	7	22	21
7	Salinas Valley Psychiatric Program	4	14	14
8	Vacaville Psychiatric Program	3	8	7
	<b>Total</b>	<b>52</b>	<b>219</b>	<b>199</b>

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<sup>1</sup> For each finding or observation, corrective actions ranged from one to nine recommendations.

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In addition to DOF's OSAE Internal Control Review, the table below illustrates the number of additional findings or observations and recommendations that are monitored by DMH:

**Table 2**

No.	External Entity	Number of Audits	Number of Findings or Observations	Number of Recommendations <sup>2</sup>	Number of Recommendations Implemented
1	Department of Finance's OSAE	6	30	66	49
2	Bureau of State Audits	3	14	19	8
3	Centers for Medicare and Medicaid Services	2	7	7	5
	<b>Total</b>	<b>11</b>	<b>51</b>	<b>92</b>	<b>62</b>

The audits referenced in Table 2 are listed in the **Addendum**.

Also, DMH has addressed some of the additional risk areas that were identified in the DOF's OSAE risk assessment. For example, DMH:

- Updated the five year Strategic Plan for 2009 - 2014
- Hired personnel to fill administrative executive level positions as follows: Budget Officer, Contracts Officer, Chief of Financial Services, Chief Information Officer, and Chief of Administrative Services.
- Continues to work diligently to implement the Civil Rights of Institutionalized Persons Act Enhancement Plan.
- Developed standardized policies and procedures for hospital overtime.

### Conclusion

DMH Director and Executive Staff remains committed to ensuring that DMH complies with FISMA and DOF guidelines. Furthermore, the DMH Director believes that the establishment of the internal audit function will continue to assist DMH Executive Staff in adequately fulfilling the requirements of FISMA, as outlined in Government Code, Sections 13400 through 13407.

During the next biennial period January 1, 2010 through December 31, 2011, the Office of Internal Audits will continue to implement the internal audit function throughout the Department by addressing the following areas:

- DMH Internal Audit Charter

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<sup>2</sup> For each finding or observation, corrective actions ranged from one to five recommendations.

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- Staffing Proposal and Budget Requirements
- DMH Internal Audit Framework
- Department-wide Risk Assessment
- Two-Year Internal Audit Plan

The new formal structure would enhance the Office of Internal Audits ability to assist management in improving financial operations, perform special operational reviews, and review internal control.

The DMH has met the requirements of Senate Bill 1452 by establishing a framework in which the Office of Internal Audits is free to conduct its work independently. To ensure audit independence, the Office of Internal Audits reports administratively to the Chief Deputy Director.

Staff:

Vallery Walker  
Office of Internal Audits

## **Addendum**

### **List of Audits**

#### **Department of Finance, Office of State Audits and Evaluations**

1. Early and Periodic Screening, Diagnosis and Treatment Deficiency Review as of June 30, 2006 (verbal consultation)
2. Review of the Early and Periodic Screening, Diagnosis and Treatment Program's Estimation Process Report (074440053) dated February 2007
3. Review of the San Mateo Pharmacy and Laboratory Services Estimation Process Report (074440092) dated May 2007
4. Review of Claims Processes for Short-Doyle/Medi-Cal Programs Report (07440119) dated November 2007
5. California Department of Mental Health, Mental Health Services Act Report (084440075DPR) dated May 2008
6. State Hospital Budget Estimate Review Report (094440007DIR) dated November 2008

#### **Bureau of State Audits**

1. Financial Report (2008-001) dated March 26, 2009
2. Internal Control and State and Federal Compliance Audit Report (2008-002) dated March 26, 2009
3. High Risk Update - State Overtime Costs: A Variety of Factors Resulted in Significant Overtime Costs at the Departments of Mental Health and Developmental Services Report (2009-608) dated October 2009

#### **Centers for Medicare and Medicaid Services**

1. Review of California Incentive Payments to Negotiated Rate Providers Participating in the Short Doyle Medi-Cal Program Report (Control Number 09-CA-02-06-F) dated September 2008
2. Review of California Department of Mental Health Over-Billing in the Short Doyle Medi-Cal Program for State Fiscal Year 2003-2004 Report (Control Number 09-FM-2006-CA-003-F) dated December 2008

